

Fiscal Note

Fiscal Services Division



HF 652 – Military Active Duty Income Tax Exemption (LSB 1110HV.1)
Analyst: Jeff Robinson (Phone: 515-281-4614) (jeff.robinson@legis.state.ia.us)
Fiscal Note Version – As passed by the House

Description

House File 652, as passed by the House, exempts from Iowa income tax all income earned as active duty pay while a member of the U.S. armed forces, the armed forces military reserve, or the National Guard. The exemption is retroactive to January 1, 2011. The Bill also exempts active duty pay earned as part of Operation New Dawn. This change is retroactive to January 1, 2010.

Background

Iowa currently exempts active duty pay from the State income tax in specified combat-related instances. The Bill adds the new name for the Iraq war, Operation New Dawn to the exempt list so that all active duty pay earned in that operation will be exempt also.

Starting January 1, 2011, all active duty pay will not be subject to State income tax, without regard to the list of operations contained in the Iowa Code.

Assumptions

According to data collected by the Department of Revenue through the Defense Manpower Data Center, the current number of active duty personnel claiming Iowa as their residence is 9,300, and 14.6% of that number is currently serving in Iraq or other combat areas. The active duty pay of those currently serving in Iraq or other combat zones is assumed to already be exempt from tax under current law.

The Department of Revenue applied the tax exemption impact, by rank and by salary, to the 7,500 assumed active duty military personnel impacted by the proposed exemption. The number of personnel is assumed constant while active duty pay is assumed to increase each year.

Iowa's local option income surtax for schools is based on Iowa income taxes owed, prior to refundable tax credits. Statewide, the surtax equals approximately 3.0% of State income taxes owed. Exempting active duty pay will also reduce the income surtax for schools owed by the impacted taxpayers.

Fiscal Impact

The tax rate reduction contained in the Bill is projected to decrease the income tax paid by Iowa taxpayers by the following amounts:

Reduction in Iowa Income Taxes Owed
Dollars in Millions

Year	Tax Year	Fiscal Year
2011	\$ 8.8	\$ 0.9
2012	\$ 9.2	\$ 11.2
2013	\$ 10.0	\$ 9.5
2014	\$ 10.5	\$ 10.2
2015	\$ 10.6	\$ 10.5

All individual income tax revenue is deposited in the State General Fund.

In addition, the total tax liability for the Iowa income tax surcharge for schools will decrease approximately \$0.3 million each year.

Sources

Department of Revenue
Defense Manpower Data Center

/s/ Holly M. Lyons

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The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to Code [Section 2.56](#). Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
